

EAGLE HARBOR TOWNSHIP, MICHIGAN
Keweenaw County

FINANCIAL REPORT

Year Ended March 31, 2008

EAGLE HARBOR TOWNSHIP, MICHIGAN
FINANCIAL REPORT
Year Ended March 31, 2008

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INDEPENDENT AUDITOR'S REPORT

To the Township Board
Eagle Harbor Township, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Eagle Harbor Township, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Eagle Harbor Township, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As discussed in Note I C, Eagle Harbor Township, Michigan prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

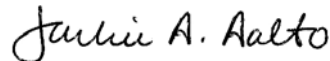
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Eagle Harbor Township, Michigan, as of March 31, 2008 and the respective changes in financial position and cash flows – modified cash basis, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note I C.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 21, 2008, on my consideration of Eagle Harbor Township, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of

that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 10 and 30 through 32 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Eagle Harbor Township, Michigan's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Jackie A. Aalto, CPA

Calumet, Michigan
August 21, 2008

EAGLE HARBOR TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

As management of Eagle Harbor Township, Michigan ("the Township"), we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2008. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of this fiscal year by \$2,594,605 (net assets). Governmental activities represented \$1,799,335 of this total, while business-type activities accounted for \$795,270 of this total.
- The Township's total net assets increased by \$117,217.
- The Township's total debt decreased by \$40,793 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or most of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include general government, public safety, public works, and parks and recreation. The business-type activities of the Township include the operations of the water distribution system and solid waste disposal.

The government-wide financial statements can be found on pages 11 and 12 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Fire Operating and Fire Funds which are considered to be major funds. Data from the other governmental fund is displayed as a nonmajor governmental fund.

The Township adopts an annual appropriated budget for its General Fund and each governmental fund. A budgetary comparison statement has been provided for the General Fund and each major governmental fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13 - 15 of this report.

Proprietary funds. The Township maintains one type of proprietary fund. The enterprise fund is used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses the enterprise fund to account for the operations of its water distribution system and solid waste disposal.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Solid Waste Funds, both of which are considered to be major funds of the Township.

The basic proprietary fund financial statements can be found on pages 16 - 18 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 28 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that explains and supports the information presented in the financial statements. This information can be found on pages 30 through 32 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets exceed liabilities by \$2,594,605 at the close of the most recent fiscal year.

A large portion of the Township's net assets (76%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and the water system), less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Eagle Harbor Township, Michigan's Net Assets (in thousands of dollars)

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 417.4	\$ 202.8	\$ 620.2
Capital assets	<u>1,626.2</u>	<u>592.5</u>	<u>2,218.7</u>
Total Assets	<u>2,043.6</u>	<u>795.3</u>	<u>2,838.9</u>
Long-term liabilities outstanding	243.5		243.5
Other liabilities	<u>.8</u>		<u>.8</u>
Total Liabilities	<u>244.3</u>		<u>244.3</u>
Net Assets:			
Invested in capital assets, net of related debt	1,382.7	592.5	1,975.2
Restricted	56.4		56.4
Unrestricted	<u>360.2</u>	<u>202.8</u>	<u>563.0</u>
Total Net Assets	<u>\$ 1,799.3</u>	<u>\$ 795.3</u>	<u>\$ 2,594.6</u>

An additional portion of the Township's net assets (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (22% or \$562,953) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Township is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The Township's net assets have increased by \$117,217 during the current fiscal year. Governmental activities increased the Township's net assets by \$100,430 and business-type activities increased the Township's net assets by \$16,787. Key elements are as follows:

Eagle Harbor Township, Michigan's Changes in Net Assets
(in thousands of dollars)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 9.5	\$ 101.2	\$ 110.7
Operating grants & contributions	50.2		50.2
General revenues:			
Property taxes	203.3		203.3
State-shared revenues	24.7		24.7
Unrestricted investment earnings	<u>12.6</u>	<u>5.5</u>	<u>18.1</u>
Total Revenues	<u>300.3</u>	<u>106.7</u>	<u>407.0</u>
Expenses:			
General government	112.0		112.0
Public safety	49.9		49.9
Public works	20.6		20.6
Recreation & culture	6.3		6.3
Interest on long-term debt	11.1		11.1
Water system		62.4	62.4
Solid waste		<u>27.5</u>	<u>27.5</u>
Total Expenses	<u>199.9</u>	<u>89.9</u>	<u>289.8</u>
Change in net assets	100.4	16.8	117.2
Net Assets – Beginning	<u>1,698.9</u>	<u>778.5</u>	<u>2,477.4</u>
Net Assets – Ending	<u>\$ 1,799.3</u>	<u>\$ 795.3</u>	<u>\$ 2,594.6</u>

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$413,920. Approximately 65% of this total amount (\$268,127) constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion. The

remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed.

The General Fund is the chief operating fund of the Township. At the end of the current fiscal year, the fund balance of the General Fund was \$320,047, of which \$263,571 was unreserved and undesignated. As a measure of the General Fund's liquidity, it may be useful to compare the total unreserved fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 148% of total General Fund expenditures.

The fund balance of the Township's General Fund has increased by \$19,075 during the current fiscal year.

Proprietary funds. The Township's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Net assets at the end of the year amounted to \$795,270. Of this amount, \$592,525 was invested in capital assets and \$202,745 was unrestricted.

General Fund Budgetary Highlights

During the year there was a \$1,860 increase in total appropriations between the original and final amended budget.

Capital Asset and Debt Administration

Capital Assets. The Township's investment in capital assets for its governmental and business-type activities as of March 31, 2008, amounts to \$2,218,705 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities and the water system.

Eagle Harbor Township, Michigan's Capital Assets (net of depreciation) (in thousands of dollars)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 1,159.2	\$	\$ 1,159.2
Construction in progress		13.5	13.5
Buildings & improvements	55.7	4.5	60.2
Machinery & equipment	411.3	5.6	416.9
Water system		568.9	568.9
Total Assets	<u>\$ 1,626.2</u>	<u>\$ 592.5</u>	<u>\$ 2,218.7</u>

Additional information on the Township's capital assets can be found in Note III B on page 26 of this report.

Long-term debt. At the end of the current fiscal year, the Township had total debt of \$243,529, all of which is debt backed by the full faith and credit of the government.

Eagle Harbor Township, Michigan's Outstanding Debt
General Obligations and Installment Purchase Agreement

	<u>Governmental Activities</u>
Loans	\$ 187,500
Installment purchase agreement	<u>56,029</u>
Total	<u>\$ 243,529</u>

The Township's total debt has decreased by \$40,793 during the current year.

Additional information on the Township's long-term debt can be found in Note III C on page 27 of this report.

Request for Information

This financial report is intended to provide a general overview of the Township's finances for all those with an interest in the Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Eagle Harbor Township, 321 Center Street, Eagle Harbor, Michigan 49950.

EAGLE HARBOR TOWNSHIP, MICHIGAN**Statement of Net Assets – Modified Cash Basis****March 31, 2008**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash	\$ 248,679	\$ 127,194	\$ 375,873
Investments	109,545	75,551	185,096
Deferred charges	2,764		2,764
Restricted assets:			
Cash	25,615		25,615
Investments	30,861		30,861
Capital assets not being depreciated	1,159,215	13,538	1,172,753
Capital assets being depreciated, net	<u>466,965</u>	<u>578,987</u>	<u>1,045,952</u>
Total Assets	<u>2,043,644</u>	<u>795,270</u>	<u>2,838,914</u>
Liabilities			
Intergovernmental payable	780		780
Noncurrent liabilities:			
Due within one year	22,779		22,779
Due in more than one year	<u>220,750</u>		<u>220,750</u>
Total Liabilities	<u>244,309</u>		<u>244,309</u>
Net Assets			
Invested in capital assets, net of related debt	1,382,651	592,525	1,975,176
Restricted for:			
Recreation & culture	8,313		8,313
Other purposes	48,163		48,163
Unrestricted	<u>360,208</u>	<u>202,745</u>	<u>562,953</u>
Total Net Assets	<u>\$ 1,799,335</u>	<u>\$ 795,270</u>	<u>\$ 2,594,605</u>

The notes to the financial statements are an integral part of this statement.

EAGLE HARBOR TOWNSHIP, MICHIGAN

Statement of Activities – Modified Cash Basis

Year Ended March 31, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government:							
Governmental activities:							
General government	\$ 111,999	\$ 9,532	\$ 16,363	\$	\$ (86,104)	\$	\$ (86,104)
Public safety	49,948		472		(49,476)		(49,476)
Public works	20,582		841		(19,741)		(19,741)
Recreation & culture	6,250		32,500		26,250		26,250
Interest on long-term debt	<u>11,114</u>				<u>(11,114)</u>		<u>(11,114)</u>
Total governmental activities	<u>199,893</u>	<u>9,532</u>	<u>50,176</u>		<u>(140,185)</u>		<u>(140,185)</u>
Business-type activities:							
Water	62,376	74,967				12,591	12,591
Solid waste	<u>27,468</u>	<u>26,212</u>				<u>(1,256)</u>	<u>(1,256)</u>
Total business-type activities	<u>89,844</u>	<u>101,179</u>				<u>11,335</u>	<u>11,335</u>
Total primary government	<u>\$ 289,737</u>	<u>\$ 110,711</u>	<u>\$ 50,176</u>	<u>\$</u>	<u>(140,185)</u>	<u>11,335</u>	<u>(128,850)</u>
General revenues:							
Property taxes					203,251		203,251
State shared revenues					24,699		24,699
Unrestricted investment earnings					<u>12,665</u>	<u>5,452</u>	<u>18,117</u>
Total general revenues					<u>240,615</u>	<u>5,452</u>	<u>246,067</u>
Change in net assets					100,430	16,787	117,217
Net assets – Beginning					<u>1,698,905</u>	<u>778,483</u>	<u>2,477,388</u>
Net assets – Ending					<u>\$ 1,799,335</u>	<u>\$ 795,270</u>	<u>\$ 2,594,605</u>

The notes to the financial statements are an integral part of this statement.

EAGLE HARBOR TOWNSHIP, MICHIGAN

**Balance Sheet – Modified Cash Basis
Governmental Funds**

March 31, 2008

	<u>General</u>	<u>Fire Operating</u>	<u>Fire</u>	<u>Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
Assets					
Cash	\$ 154,806	\$ 55,332	\$ 33,985	\$ 4,556	\$ 248,679
Investments	109,545				109,545
Restricted assets:					
Cash	25,615				25,615
Investments	<u>30,861</u>	<u> </u>	<u> </u>	<u> </u>	<u>30,861</u>
Total Assets	<u>\$ 320,827</u>	<u>\$ 55,332</u>	<u>\$ 33,985</u>	<u>\$ 4,556</u>	<u>\$ 414,700</u>
Liabilities and Fund Balances					
Liabilities					
Intergovernmental payable	<u>\$ 780</u>	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>	<u>\$ 780</u>
Fund Balances					
Reserved for:					
Community projects	17,931				17,931
Capital acquisitions	30,232				30,232
Recreation & culture	8,313				8,313
Public safety		55,332	33,985		89,317
Unreserved, undesignated reported in:					
General fund	263,571				263,571
Special revenue fund	<u> </u>	<u> </u>	<u> </u>	<u>4,556</u>	<u>4,556</u>
Total Fund Balances	<u>320,047</u>	<u>55,332</u>	<u>33,985</u>	<u>4,556</u>	413,920
Total Liabilities and Fund Balances	<u>\$ 320,827</u>	<u>\$ 55,332</u>	<u>\$ 33,985</u>	<u>\$ 4,556</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	1,626,180
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(243,529)
Deferred charges for debt issuance costs, net of amortization, are capitalized in the government-wide financial statements	<u>2,764</u>
Net assets of governmental activities	<u>\$1,799,335</u>

The notes to the financial statements are an integral part of this statement.

EAGLE HARBOR TOWNSHIP, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis Governmental Funds

Year ended March 31, 2008

	General	Fire Operating	Fire	Nonmajor Governmental Fund	Total Governmental Funds
Revenues					
Taxes	\$ 137,027	\$ 33,634	\$ 32,590	\$	\$ 203,251
Intergovernmental revenues - State	30,350	472			30,822
Charges for services	5,805			3,100	8,905
Interest & rents	12,059	900	256	77	13,292
Other	<u>10,883</u>	<u>670</u>	<u></u>	<u></u>	<u>11,553</u>
Total Revenues	<u>196,124</u>	<u>35,676</u>	<u>32,846</u>	<u>3,177</u>	<u>267,823</u>
Expenditures					
Current					
General government	85,055			2,705	87,760
Public safety	4,470	20,660			25,130
Public works	20,400				20,400
Recreation & culture	5,168				5,168
Other	18,066				18,066
Debt service					
Principal	22,293		18,500		40,793
Interest	2,540		8,574		11,114
Capital outlay	<u>19,057</u>	<u></u>	<u></u>	<u></u>	<u>19,057</u>
Total Expenditures	<u>177,049</u>	<u>20,660</u>	<u>27,074</u>	<u>2,705</u>	<u>227,488</u>
Net Change in Fund Balances	19,075	15,016	5,772	472	40,335
Fund Balances – Beginning	<u>300,972</u>	<u>40,316</u>	<u>28,213</u>	<u>4,084</u>	
Fund Balances – Ending	<u>\$ 320,047</u>	<u>\$ 55,332</u>	<u>\$ 33,985</u>	<u>\$ 4,556</u>	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (12,979)

Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources. 32,500

EAGLE HARBOR TOWNSHIP, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis
Governmental Funds**

Year ended March 31, 2008

	<u>General</u>	<u>Fire Operating</u>	<u>Fire</u>	<u>Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.					40,793
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amortization of issuance costs.					<u>(219)</u>
Change in Net Assets of Governmental Activities					<u>\$ 100,430</u>

The notes to the financial statements are an integral part of this statement.

EAGLE HARBOR TOWNSHIP, MICHIGAN**Statement of Net Assets – Modified Cash Basis
Proprietary Funds****March 31, 2008**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Solid Waste</u>	<u>Total</u>
Assets			
Current Assets:			
Cash	\$ 97,078	\$ 30,116	\$ 127,194
Investments	<u>54,400</u>	<u>21,151</u>	<u>75,551</u>
Total Current Assets	<u>151,478</u>	<u>51,267</u>	<u>202,745</u>
Noncurrent assets:			
Capital assets not being depreciated	13,538		13,538
Capital assets being depreciated, net	<u>572,712</u>	<u>6,275</u>	<u>578,987</u>
Total Noncurrent Assets	<u>586,250</u>	<u>6,275</u>	<u>592,525</u>
Total Assets	<u>737,728</u>	<u>57,542</u>	<u>795,270</u>
Liabilities			
Net Assets			
Invested in capital assets, net of related debt	586,250	6,275	592,525
Unrestricted	<u>151,478</u>	<u>51,267</u>	<u>202,745</u>
Total Net Assets	<u>\$ 737,728</u>	<u>\$ 57,542</u>	<u>\$ 795,270</u>

The notes to the financial statements are an integral part of this statement.

EAGLE HARBOR TOWNSHIP, MICHIGAN**Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis
Proprietary Funds****Year Ended March 31, 2008**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Solid Waste</u>	<u>Total</u>
Operating Revenues			
Charges for services	<u>\$ 74,967</u>	<u>\$ 26,212</u>	<u>\$ 101,179</u>
Operating Expenses			
Personal services	20,678	4,446	25,124
Administration	329	218	547
Contracted services		18,712	18,712
Utilities & telephone	3,866	447	4,313
Supplies & maintenance	15,966	404	16,370
Other services & charges	6,236	2,412	8,648
Depreciation	<u>15,301</u>	<u>829</u>	<u>16,130</u>
Total Operating Expenses	<u>62,376</u>	<u>27,468</u>	<u>89,844</u>
Operating Income (Loss)	12,591	(1,256)	11,335
Nonoperating Revenues (Expenses)			
Investment earnings	<u>4,182</u>	<u>1,270</u>	<u>5,452</u>
Change in Net Assets	16,773	14	16,787
Total Net Assets - Beginning	<u>720,955</u>	<u>57,528</u>	<u>778,483</u>
Total Net Assets - Ending	<u>\$ 737,728</u>	<u>\$ 57,542</u>	<u>\$ 795,270</u>

The notes to the financial statements are an integral part of this statement.

EAGLE HARBOR TOWNSHIP, MICHIGAN**Statement of Cash Flows – Modified Cash Basis
Proprietary Funds****Year Ended March 31, 2008**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Solid Waste</u>	<u>Total</u>
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 74,967	\$ 26,212	\$ 101,179
Payments to suppliers	(26,397)	(22,193)	(48,590)
Payments to employees	<u>(20,678)</u>	<u>(4,446)</u>	<u>(25,124)</u>
Net cash provided (used) by operating activities	<u>27,892</u>	<u>(427)</u>	<u>27,465</u>
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	<u>(15,778)</u>	<u> </u>	<u>(15,778)</u>
Cash Flows from Investing Activities			
Interest received	<u>2,355</u>	<u>563</u>	<u>2,918</u>
Net Increase in Cash	14,469	136	14,605
Cash – Beginning	<u>82,609</u>	<u>29,980</u>	<u>112,589</u>
Cash – Ending	<u>\$ 97,078</u>	<u>\$ 30,116</u>	<u>\$ 127,194</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 12,591	\$ (1,256)	\$ 11,335
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	<u>15,301</u>	<u>829</u>	<u>16,130</u>
Net cash provided (used) by operating activities	<u>\$ 27,892</u>	<u>\$ (427)</u>	<u>\$ 27,465</u>
Noncash investing activities:			
Interest added to CD	<u>\$ 1,827</u>	<u>\$ 707</u>	<u>\$ 2,534</u>

The notes to the financial statements are an integral part of this statement.

EAGLE HARBOR TOWNSHIP, MICHIGAN

**Statement of Net Assets – Modified Cash Basis
Fiduciary Funds
March 31, 2008**

	<u>Agency Funds</u>
Assets	
Cash	<u>\$ 23,355</u>
Liabilities	
Intergovernmental payable	<u>\$ 23,355</u>

The notes to the financial statements are an integral part of this statement.

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2008

I. Summary of Significant Accounting Policies

A. Reporting Entity

Eagle Harbor Township, Michigan (“the Township”) was organized in 1861 and covers an area of approximately 118,645 acres. The Township operates under an elected board of trustees consisting of five members including a supervisor, clerk, treasurer and two trustees. Services provided to the residents include a water supply system, fire protection, solid waste disposal, recreation and community enrichment. Except for the use of a modified cash basis of accounting as described in Note I C, the accounting policies of Eagle Harbor Township, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Eagle Harbor Township, Michigan:

In determining the financial reporting entity, the Township complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*. Management has addressed the potential component units (traditionally separate reporting entities) that the Township may be financially accountable and, as such, should be included within the Township’s financial statements. The Township (the primary government) is financially accountable if it appoints a voting majority of the organization’s governing board and 1) it is able to impose its will on the organization or 2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens, on the Township. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. There are no organizations that meet these criteria.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2008

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements and the fund financial statements are presented using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide financial statements and the proprietary fund financial statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements.

If the Township utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for the proprietary and fiduciary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

The Township reports the following major governmental fund:

The *General Fund* is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Operating Fund* accounts for tax revenues that are restricted for fire protection and fire department expenses.

The *Fire Fund* accounts for tax revenues that are restricted for the repayment of a Rural Development loan for the purchase of a fire truck.

The Township reports the following major proprietary funds:

The *Water Fund* accounts for the activities of the Township's water distribution system.

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2008

The *Solid Waste Fund* accounts for the activities of the Township's solid waste removal operations.

Additionally, the Township reports the Cemetery Fund as its only nonmajor governmental fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and solid waste functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition. The Township has no short-term investments.

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2008

Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds”(i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

When applicable, advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property taxes are levied on December 1st and are due and payable on or before February 14th of the following calendar year. The Township bills and collects its own taxes. Unpaid delinquent real property taxes are collected by the County. Unpaid personal property taxes are collected by the Township.

The 2007 taxable valuation of the Township totaled \$33,490,453, on which ad valorem taxes levied consisted of 1.0413 mills for operating purposes and 2.5337 mills for extra voted operating purposes and 1.0000 mills for fire operating purposes. This resulted in \$34,874, \$84,855 and \$33,490, respectively. These amounts are recorded in the General and Fire Operating Funds.

3. Restricted Assets

Restricted assets include assets that are legally restricted as to their use. The restricted assets are related to restrictions imposed by third parties.

4. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are generally defined by the Township as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2008

As the government constructs or acquires additional capital assets each period they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense that was capitalized as part of the cost of assets under construction.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20 to 50 years
Water system	40 to 60 years
Machinery and equipment	3 to 25 years

5. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize debt issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2008

7. Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. Stewardship, Compliance, and Accountability

Budgetary Information

The Township is required to follow the budget system provided by Michigan Public Act 621 – Uniform Budgeting and Accounting Act. The budget basis of accounting does not differ significantly from the financial statement presentation used to reflect actual revenues and expenditures. All annual appropriations lapse at fiscal year end. Encumbrance accounting is not employed in governmental funds.

III. Detailed Notes on All Funds

A. Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classification which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Township's deposits are in accordance with statutory authority. The Township has designated five banks for the deposit of Township funds.

The Township's deposits and investments as of March 31, 2008 are included in the statement of net assets under the following categories:

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2008

	Governmental Activities	Business-type Activities	Total Primary Government
Cash	\$ 248,679	\$ 127,194	\$ 375,873
Investments	109,545	75,551	185,096
Restricted assets – cash	25,615		25,615
Restricted assets – investments	<u>30,861</u>		<u>30,861</u>
	<u>\$ 414,700</u>	<u>\$ 202,745</u>	<u>\$ 617,445</u>

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Township’s deposits may not be returned to it. As of March 31, 2008 \$412,418 of the Township’s bank balance of \$612,418 was exposed to custodial credit risk because it was uninsured and uncollateralized.

B. Capital Assets

Capital asset activity for the year ended March 31, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	<u>\$ 1,126,715</u>	<u>\$ 32,500</u>	<u>\$</u>	<u>\$ 1,159,215</u>
Capital assets being depreciated:				
Buildings & improvements	87,385			87,385
Machinery & equipment	<u>579,336</u>	<u>19,057</u>		<u>598,393</u>
Total capital assets being depreciated	<u>666,721</u>	<u>19,057</u>		<u>685,778</u>
Accumulated depreciation for:				
Building & improvements	(28,996)	(2,766)		(31,762)
Machinery & equipment	<u>(157,781)</u>	<u>(29,270)</u>		<u>(187,051)</u>
Total accumulated depreciation	<u>(186,777)</u>	<u>(32,036)</u>		<u>(218,813)</u>
Total capital assets being depreciated, net	<u>479,944</u>	<u>(12,979)</u>		<u>466,965</u>
Governmental activities capital assets, net	<u>\$ 1,606,659</u>	<u>\$ 19,521</u>	<u>\$</u>	<u>\$ 1,626,180</u>
Business-type Activities:				
Capital assets not being depreciated:				
Construction in progress	<u>\$</u>	<u>\$ 13,538</u>	<u>\$</u>	<u>\$ 13,538</u>
Capital assets being depreciated:				
Buildings & improvements	15,632			15,632
Water system	733,821			733,821
Equipment	<u>29,172</u>	<u>2,240</u>		<u>31,412</u>

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2008

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Total capital assets being depreciated	<u>778,625</u>	<u>2,240</u>		<u>780,865</u>
Accumulated depreciation:				
Buildings & improvements	(10,719)	(447)		(11,166)
Water system	(150,224)	(14,676)		(164,900)
Equipment	<u>(24,805)</u>	<u>(1,007)</u>		<u>(25,812)</u>
Total accumulated depreciation	<u>(185,748)</u>	<u>(16,130)</u>		<u>(201,878)</u>
Total capital assets being depreciated, net	<u>592,877</u>	<u>(13,890)</u>		<u>578,987</u>
Business-type activities capital assets, net	<u>\$ 592,877</u>	<u>\$ (352)</u>	<u>\$</u>	<u>\$ 592,525</u>

Depreciation expense was charged to functions/programs of the government as follows:

Governmental activities:

General government	\$ 5,954
Public safety	24,818
Public works	182
Recreation & culture	<u>1,082</u>

Total depreciation expense - governmental activities \$ 32,036

Business-type activities

Water	\$ 15,301
Solid waste	<u>829</u>

Total depreciation expense - business-type activities \$ 16,130

C. Long-Term Liabilities

General obligation bonds and loans are direct obligations and pledge the full faith and credit of the Township. Contractual agreements and installment purchase agreements are also general obligations of the Township.

Long-term liability activity for the year ended March 31, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Loans					
Rural Development–Fire truck. Interest is 4.25%, matures November 2021	\$ 24,000	\$	\$ (10,000)	\$ 14,000	\$ 2,000

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2008

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Rural Development – Fire truck. Interest is 4.25%, matures November 2021	182,000		(8,500)	173,500	8,500
Installment Purchase Agreement Bank – Land. Interest is 3.5% to be adjusted September 2009, matures September 2014	<u>78,322</u>	<u> </u>	<u>(22,293)</u>	<u>56,029</u>	<u>12,279</u>
Governmental Activities – Long-term Liabilities	<u>\$ 284,322</u>	<u>\$ </u>	<u>\$ (40,793)</u>	<u>\$ 243,529</u>	<u>\$ 22,779</u>

Annual debt service requirements to maturity for the above loans and contractual obligations are as follows:

<u>Year Ended March 31,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 22,779	\$ 9,930
2010	24,708	9,054
2011	25,653	8,099
2012	26,613	7,107
2013	18,276	6,079
2014-2018	72,500	20,571
2019-2021	<u>53,000</u>	<u>4,548</u>
	<u>\$ 243,529</u>	<u>\$ 65,388</u>

IV. Other Information

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and employee injuries (workers' compensation). All risk of loss is covered by commercial insurance. Settled claims resulting from these risks have not exceeded the amount of insurance coverage in the past three fiscal years.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amount, if any, to be immaterial.

Required Supplementary Information

EAGLE HARBOR TOWNSHIP, MICHIGAN**Budgetary Comparison Schedule – Modified Cash Basis
General Fund
Year Ended March 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
Beginning Budgetary Fund Balance	\$ 300,972	\$ 300,972	\$ 300,972
Resources (Inflows):			
Taxes	126,610	126,610	137,027
Intergovernmental – State	20,000	20,000	30,350
Charges for services	5,100	5,100	5,805
Interest & rents	8,951	8,951	12,059
Other	<u>3,760</u>	<u>3,760</u>	<u>10,883</u>
Amounts Available for Appropriation	<u>465,393</u>	<u>465,393</u>	<u>497,096</u>
Charges to Appropriations (Outflows):			
General government	106,790	105,000	85,055
Public safety	5,000	5,000	4,470
Public works	19,275	20,725	20,400
Recreation & culture	9,200	8,000	5,168
Other	57,730	19,630	18,066
Debt service		21,000	24,833
Capital outlay	<u></u>	<u>20,500</u>	<u>19,057</u>
Total Charges to Appropriations	<u>197,995</u>	<u>199,855</u>	<u>177,049</u>
Ending Budgetary Fund Balance	<u>\$ 267,398</u>	<u>\$ 265,538</u>	<u>\$ 320,047</u>

EAGLE HARBOR TOWNSHIP, MICHIGAN

**Budgetary Comparison Schedule – Modified Cash Basis
Fire Operating Fund
Year ended March 31, 2008**

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 40,316	\$ 40,316
Resources (Inflows):		
Taxes	29,000	33,634
Intergovernmental – State		472
Interest & rents		900
Other	<u> </u>	<u>670</u>
Amounts Available for Appropriation	69,316	75,992
Charges to Appropriations (Outflows):		
Public safety	<u>34,665</u>	<u>20,660</u>
Ending Budgetary Fund Balance	<u>\$ 34,651</u>	<u>\$ 55,332</u>

EAGLE HARBOR TOWNSHIP, MICHIGAN

**Budgetary Comparison Schedule – Modified Cash Basis
Fire Fund
Year ended March 31, 2008**

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 28,213	\$ 28,213
Resources (Inflows):		
Taxes	31,280	32,590
Interest & rents	<u> </u>	<u>256</u>
Amounts Available for Appropriation	59,493	61,059
Charges to Appropriations (Outflows):		
Debt service	<u>28,200</u>	<u>27,074</u>
Ending Budgetary Fund Balance	<u>\$ 31,293</u>	<u>\$ 33,985</u>

Other Supplementary Information

EAGLE HARBOR TOWNSHIP, MICHIGAN

**Combining Statement of Net Assets – Modified Cash Basis
Fiduciary Funds
March 31, 2008**

	<u>Agency Funds</u>		
	<u>Current Tax</u>	<u>Delinquent Tax</u>	
	<u>Account</u>	<u>Account</u>	<u>Total</u>
Assets			
Cash	<u>\$ 23,183</u>	<u>\$ 172</u>	<u>\$ 23,355</u>
 Liabilities			
Intergovernmental payable	<u>\$ 23,183</u>	<u>\$ 172</u>	<u>\$ 23,355</u>

Federal Programs

EAGLE HARBOR TOWNSHIP, MICHIGAN

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Township Board
Eagle Harbor Township, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Eagle Harbor Township, Michigan, as of and for the year ended March 31, 2008 which collectively comprise Eagle Harbor Township, Michigan's basic financial statements, and have issued my report thereon dated August 21, 2008. The report was a special report on Eagle Harbor Township, Michigan's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Eagle Harbor Township, Michigan's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Eagle Harbor Township, Michigan's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Eagle Harbor Township, Michigan's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Eagle Harbor Township, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Eagle Harbor Township, Michigan's financial statements that is more than inconsequential will not be prevented or detected by Eagle Harbor Township, Michigan's internal control. I consider the deficiencies described in the accompanying schedule of findings and responses as items 08-01 and 08-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Eagle Harbor Township, Michigan's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that neither of the significant deficiencies described above is a material weakness.

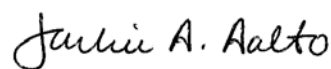
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eagle Harbor Township, Michigan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to the management of the Eagle Harbor Township, Michigan in a separate letter dated August 21, 2008.

The Eagle Harbor Township, Michigan's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. I did not audit Eagle Harbor Township, Michigan's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the Township board, others within the entity, federal and state awarding agencies, and, if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Jackie A. Aalto, CPA

Calumet, Michigan
August 21, 2008

EAGLE HARBOR TOWNSHIP, MICHIGAN

Schedule of Findings and Responses

Year Ended March 31, 2008

FINDINGS – FINANCIAL STATEMENT AUDIT

08-01 Ability to Prepare Financial Statements

Criteria: Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Township rests with the Township's management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Condition: As is the case with many small entities, management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Cause: The condition noted in the preceding paragraph exists at Eagle Harbor Township, Michigan. The cause for this condition is because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditor than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

Effect: As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the Township's annual financial statements and notes to the financial statements in accordance with GAAP, and instead relies in part, on its external auditor for assistance with this task.

Response: Due principally to the small size of the Township and the limited funds available to the Township, the hiring of accounting personnel capable of writing the Township's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

08-02 Lack of Segregation of Duties

Criteria: Management is responsible for protecting the Township's assets. As such, a proper segregation of duties is needed to ensure protection and accurate financial reporting. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

Condition: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

EAGLE HARBOR TOWNSHIP, MICHIGAN

Schedule of Findings and Responses

Year Ended March 31, 2008

Cause: The Township has a limited number of personnel available to adequately segregate all incompatible duties.

Effect: As a result of this condition, the same individuals are responsible for all accounting functions. The result is the possibility that intentional or unintentional errors could be made and not be detected.

Response: As noted above, due to the small size of the Township and the limited funds of the Township, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the Township's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Township board assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

To the Township Board
Eagle Harbor Township, Michigan

In planning and performing my audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Eagle Harbor Township, Michigan as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, I considered Eagle Harbor Township, Michigan's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, I do not express an opinion on the effectiveness of the Township's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control that I consider to be material weaknesses, as defined above. Please refer to the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards* for references to deficiencies in internal control that I consider to be significant deficiencies.

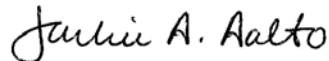
In addition, I noted other matters involving the internal control and its operations that are reported below:

1. The financial statements of the Township are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. I recommend that the financial statements be prepared on the basis of accounting required by accounting principles generally accepted in the United States of America.
2. At March 31, 2008 the Township's primary government had \$612,418 in deposits, of which \$412,418 was uninsured. I recommend that the Township review its investment policy and procedures to determine if there could be alternative investment strategies that would yield higher investment returns and also allow for FDIC protection.

3. Currently, the Township does not annually authorize check signers. A current listing of authorized check signers, which is approved annually by the Township board, should be maintained to ensure proper authorization of all disbursements. I recommend the listing be periodically reviewed and updated each time a change in check signers occurs and that the bank be promptly and formally notified of any change.

This communication is intended solely for the information and use of the Township board, others within the entity, federal and state awarding agencies, and if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to thank the Township personnel for their courtesy and assistance during the audit. I appreciate the opportunity to serve as your auditor. If there are any questions about your financial report or the above comments and recommendations, I would be happy to discuss them at your convenience.

A handwritten signature in cursive script that reads "Jackie A. Aalto".

Jackie A. Aalto, CPA

Calumet, Michigan
August 21, 2008